



Mixed-Use Facilities

**Civic Builders
Presentation to**

The National Charter School Resource Center's

National Charter School Facilities Institute

**Chicago, IL
June 28, 2010**



Agenda

- Overview of mixed-use facilities
- NYC landscape
- Background on Civic Builders
- Case Study 1: Charter School & Traditional Public School
- Case Study 2: Charter School & Retail
- Case Study 3: Charter School on Housing Development
- Case Study 4: Charter School & Affordable Housing
- Summary & Recommendations



Why Mixed-Use Facilities? General

❑ Public policy agenda

- **Federal programs like Choice Neighborhoods and Promise Neighborhoods encourage mixed-use planning for healthy neighborhoods**
- **US Dept of Ed's initiative on Full-Service Community Schools**
 - **To provide comprehensive academic, social, and health services for students**

❑ Community Benefits

- Integrating housing, education, transit, health, mental health, nutrition, employment counseling, etc.

Goal: Revitalizing Communities



Why Mixed-Use Facilities? Site-Specific

- ☐ Attract political support
- ☐ Attract/increase funding
- ☐ Subsidize school facility costs
- ☐ Develop otherwise unachievable site

Goal: Building charter facilities



What's needed for mixed-use facilities?

- ❑ Charter School capable of managing a complex project, strong fundraising capacity
- ❑ Government support, especially at local level
- ❑ Community-minded partners
- ❑ Political support from local politicians and community residents

BUT

Mixed-use projects are very complicated, slow to develop, and draining for the charter school

Carefully assess the benefits vs. risks

Overview of Civic Builders

- \$445 MM in real estate assets
- 12 Projects
- 750,000 SF
- Over 7,000 student seats





Overview of New York City Market

- ❑ Gap between occupancy costs and affordability
 - Per pupil revenue: \$12,443, escalated at a compounded rate of 7% over the past five years
 - Coordinated advocacy for additional funding
- ❑ Extremely supportive Chancellor and Mayor
 - Space-sharing initiative with traditional public schools
 - Allocated \$460MM in City capital dollars for the development of charter school facilities
- ❑ Substantial facilities demand from strong CMOs and independents



Overview of Civic Builders

Civic Builders is a nonprofit real estate developer, which provides turnkey facilities charter operators in New York and Newark

- Find sites
- Conduct due diligence
- Negotiate purchases
- Arrange financing
- Offer credit enhancement
- Source philanthropy and other subsidy
- Oversee design and construction



Case Studies

- ❑ Case Study 1: Charter School & Traditional Public School
- ❑ Case Study 2: Charter School & Retail
- ❑ Case Study 3: Charter School on Housing Development
- ❑ Case Study 4: Charter School & Affordable Housing



Case Studies: Why Mixed-Use?

❑ Why mixed-use?

- Increase political and community support for project
- Integrate school and community services
- Only way to purchase desired property
- Hope to subsidize charter facility

❑ Client profile

- Very strong fund-raising capacity
- Strong political connections
- Dedicated staff person or consultant to manage project from school/nonprofit side



Case Study 1: Icahn North

Mixed Use: Charter School and Traditional Public School

❑ Property Description

- Acquired warehouse
- Demolished warehouse and constructed 125,000 SF building
 - 35,000 SF charter school
 - 90,000 SF public school



Case Study 1: Icahn North

Mixed Use: Charter School and Traditional Public School

❑ Designed and built as independent facilities in one building envelope

- Separate entrances
- Independent building systems
- Some economies of scale, shared spaces
 - 1 kitchen serves 2 cafeterias
 - 1 gym
 - 1 auditorium



Case Study 1: Icahn North

Mixed Use: Charter School and Traditional Public School

❑ Funding

- 98% of funding provided by NYC capital budget
- Charter school/Civic Builders contribute remainder
- Building is owned by City
- Civic and charter have 15-year lease, options for additional 84 years



Case Study 1: Icahn North

Mixed Use: Charter School and Traditional Public School

- ❑ Differences between Icahn North and stand-alone charter building
 - Funding sources
 - Community engagement
 - Required city council approval
 - Approval of local community board
 - Charter benefited from shared space
- ❑ Differences between Icahn North and shared spaces
 - NYC DOE co-locates charters in their buildings
 - Icahn North advantages
 - Designed for two schools
 - Both schools arrive at the same time



Case Study 2: Central Harlem School

Mixed Use: Charter School and Retail

❑ Property Description

- Acquired 2-story office building on main Harlem retail corridor
- Demolished building and constructed 67,000 SF building with three condominiums
 - 55,000 SF charter school
 - 9,000 SF retail space
 - 3,000 SF office/gallery space for the charter's umbrella nonprofit

❑ Three condominiums, designed and built as independent facilities in one building envelope

- Separate entrances
- Independent building systems



Case Study 2: Central Harlem School

Mixed Use: Charter School and Retail

❑ Funding for school condo

- 80% of funding for school condo provided by NYC capital budget
- Charter school/Civic Builders contribute remainder
- School condo is owned by City
- Civic and charter have 30-year lease, options for additional 69 years
 - City concerned that they not subsidize retail or office space

❑ Funding for retail condo

- Paid for 100% by charter school umbrella nonprofit
- Nonprofit will own, can sell or lease for retail purposes

❑ Funding for office condo

- Paid for 100% by charter school umbrella nonprofit
- Used as programmable space for school's benefit, community benefit



Case Study 2: Central Harlem School

Mixed Use: Charter School and Retail

❑ Challenges of including retail

- **Complex structure**
 - **Lender concerns re: defaults, completion, control**
- **Market value volatility**
 - **Variation in acquisition price**
 - **Retail condo appraised value, commitment of retail partner**
- **Risk of selling/leasing retail**
 - **Draining for organization**
- **Cost allocation negotiation**
 - **Ensure no condo subsidizes others**
- **Prevailing wage**
 - **Applies if using public funds, makes other condos more expensive to build**
- **Allocation of condo voting rights**
 - **In this case, nonprofit holds decision-making power**



Case Study 3: West Harlem School

Mixed Use: Charter School on Public Housing Site

❑ Developing a strong partnership with New York City Housing Authority (NYCHA)

- NYCHA has inventory of properties with available development opportunities
- Seeking to monetize land value and serve residents

❑ Project Description

- Client is a well-respected community-services nonprofit, expanding and consolidating its charter schools
- Planning to purchase approx. 30,000 SF site in the middle of a NYCHA housing development
- Planning to build approx. 132,000 SF charter school for grades K-12
- Building to include community facilities, health center
- Funding is 2/3 from NYC capital budget, 1/3 from school and Civic
- Building to be owned by City, school and Civic will have 99-year lease



Case Study 3: West Harlem School

Mixed Use: Charter School on Public Housing Site

- ❑ Challenges of building on public housing site
 - Acquisition cost negotiation
 - Location requires extensive site work
 - Land disposition process
 - Lengthy, complicated process affects project timeline
 - Resident communications and input
 - Housing development residents are consulted as part of land disposition
 - Politics of charter schools siting
 - Popular opposition to charter schools could derail process during public hearings

- ❑ Benefit to project
 - Community benefit of combining community facilities and school



Case Study 4: East Harlem School

Mixed Use: Charter School and Affordable Housing on Public Housing Site

❑ Project Description

- Client is a well-respected nonprofit with strong ties to the community
- Planning to purchase approx. 27,000 SF site in the middle of a NYCHA housing development
- Planning to build a building with three condos: approx. 88,000 SF of affordable housing, approx. 58,000 SF charter school, approx. 5,000 office space for the nonprofit²⁰
- Partnering with affordable housing developer, responsible for building core and shell of building, plus housing fit-out
- Funding for school condo is 2/3 from NYC capital budget, 1/3 from school and Civic
- School condo will be owned by the City, school and Civic will have a 99-year lease



Case Study 4: East Harlem School

Mixed Use: Charter School and Affordable Housing on Public Housing Site

- ❑ Challenges of building with affordable housing
 - Complexity of 2 developers on project
 - Need to define roles, synchronize schedules and financing
 - Prevailing wage
 - Affordable housing not typically built prevailing wage
 - Use of public money may require prevailing wage on some or all of project, creating difficulty for housing financing
 - Politics of charter schools siting
 - Affordable housing can be helpful with local politics, both with residents and elected officials

Summary

❑ Benefits and Challenges of Mixed-Use Facilities

➤ Potential Benefits

- Subsidize charter costs, if structured carefully
- Provide access to additional funding sources
- Gain design efficiency from economies of scale
- Bring political and community support
- Meet programmatic requirements of site (acquisition cost subsidy, zoning, NYCHA requirements, etc.)
- Community access to facilities (e.g. school and community center)

➤ Challenges

- Complexity adds risk (schedule risk, financing, completion)
- Ensuring performance of multiple partners
- Need to get lenders/funders comfortable with risks of additional partners



Recommendations

- ❑ Recommendations
 - Keep transaction structure as simple as possible
 - Stay focused on goal of creating school facility
 - Carefully assess risks of additional complexity (timeline, liability)
 - Don't try to create a new line of business or income stream from real estate without taking into account the potential impact on the organization



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